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Research Bulletin

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A Publication from INPUT's U.S. Information Services Market Analysis Program

Professional Services Market Update

INPUT's recently published report, *U.S. Professional Services Market, 1993-1998*, reveals an industry that is continuing to grow at a moderate, but steady pace. The slow rate of economic growth, user needs, and technology are some of the major factors that effect this marketplace and, as a result, some industries will be more aggressive users of professional services and offer better opportunities for the providers of such services. In addition, as noted in the following analysis, professional services firms are also responding to a number of influences that affect how they do business and the rates that they charge for their services.

User Needs for Professional Services

INPUT's survey of the users of professional services notes that the major concern driving the use of such resources continues to be the need for businesses to improve both the quality of their products and the quality of the support services that they provide to their customers. For instance, companies in the manufacturing, banking and distribution industries noted that they have had systems developed or upgraded to better capture and analyze customer needs and to track and resolve customer problems.

Other user needs include improving or installing sales support systems, implementing networks of various types to improve

connectivity between both internal departments and external suppliers and customers, segmenting applications as required by expanded user responsibilities, and the re-engineering and outsourcing requirements that are occurring as firms respond to the business realities of the 1990s.

Technology

Technological change is also driving the use of professional services. INPUT's survey of end-users indicates that implementation of client/server architecture, network complexity and the expansion of telecommunications networks, open system considerations, object-oriented technology, imaging systems, and implementing multimedia are key technological concerns.

Client/server, especially, has captured the interest of American business. A recent INPUT industry study indicated that more than 80% of the users who were planning for new applications intended to use client/server technology for implementation.

Target Platforms

Given the interest in client/server, it is not surprising that from a platform perspective, the emphasis on the use of professional services is moving away from the strong mainframe focus

of the 1970s and 1980s, to one emphasizing client/server and workstations/PCs in the 1990s. INPUT estimates that in 1992, approximately 25% of all PS expenditures were in support of client/server and workstation/PC platforms, while 52% were for mainframe-related projects. By 1998, this distribution will shift dramatically, with 60% of professional services activities supporting client/server and workstation/PC applications, while only 15% of user expenditures will be for professional services support for mainframe-oriented solutions. This shift, plus the changes for midrange and open systems, is noted in Exhibit 1.

solutions and applications management; ongoing needs to improve product quality and customer service; a desire for improved sales effectiveness in the highly competitive domestic marketplace; and a need to effectively apply the concepts and principles of re-engineering to the IT function.

Inhibitors - Inhibitors to the growth of the professional services market include: the slow rate of economic recovery and related fiscal and budgetary conservatism; competition from other vendors such as systems integrators and software products vendors; an ongoing shortage of critical technical skills; and the growing use of (perceived) lower-cost internal consulting groups, ex-employees and single contractors.

Exhibit 1

Professional Services Expenditures by Target Platforms

Platform	Percent	
	1992	1998
Mainframe	52	15
Client/Server, Workstation/PC	25	60
Midrange	21	15
Open Systems	2	10
Total	100	100

Source: INPUT

Billing Rates

The fees charged for professional services can be influenced by a number of factors. Those factors tending to hold down general billing rates include competition from other sources such as systems integrators, low-cost expectations for work performed, the ready availability of temporary professional staff such as systems personnel who have been released as a result of large company downsizings,

Factors Affecting the Professional Services Market

As with any marketplace, a number of factors can either inhibit or drive the growth of the market.

Driving Forces - Forces tending to drive the use of professional services include: the growing end-user interest in both client/server

and the general media-driven perception that client/server offers "easy" (and therefore inexpensive) solutions.

Ironically, competition from major SI and accounting firms also puts pressure on rates since many users are prepared to pay more for the services of these firms, based upon their reputations and market presence, but expect to pay lower rates to other vendors.

Market Forecast

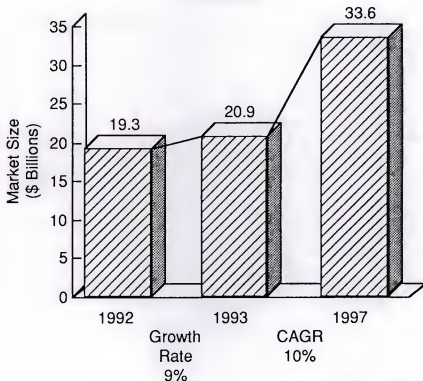
Although many of the influences noted above will tend to temper the growth of the professional services marketplace for the next five years, there will continue to be a steady, moderate expansion of this market during the forecast period, as noted in Exhibit 2.

services, however, will continue to be the largest market during the forecast period.

The fastest growing industry markets include telecommunications, utilities, process manufacturing and state and local government. The largest single market for professional services will continue to be discrete manufacturing.

Exhibit 2

U.S. Professional Services Market 1992-1998



Source: INPUT

As shown in the exhibit, the professional services market has grown from \$19.3 billion in 1992 to \$20.9 billion in 1993, and is forecast by INPUT to grow at a compound annual rate of 10% to \$33.6 billion by 1998. The rate of growth will be highest for the consulting segment of this market, followed by equal but lower rates for professional services-delivered software development and education and training services. Software development

Conclusions

The following is a brief summation of selected INPUT conclusions regarding the professional services marketplace.

Selective Growth Opportunities - Although the U.S. economic recovery has been weak, current business conditions are creating selective

opportunities for professional services firms in the industries noted above.

Competitive Pressure Will Intensify - The pressure on midsized and small firms will intensify, and many professional services firms will find that niche specialization will offer better growth opportunities. However, specialization in inherently weak industries or technologies can also prove risky.

Value - As with major accounting and systems integration firms, professional services companies must create and maintain an image of value in order to maintain a strong competitive position. These pressures will be felt most at firms of moderate size where industry exposure may be limited or activities are primarily local or regional.

Overall - Regardless of current business and economic conditions, however, the professional services marketplace will continue its steady growth over the next five years, at a pace in the lower middle of the panoply of information services markets tracked by INPUT. Faster growing information services (such as systems integration) are more recent entries in this marketplace and start from a smaller base; thus it is normal to expect an initial spurt of rapid growth. Professional services, however, is a large mature market which still continues to grow, as the rapid pace of technological and business change encourages users to seek the wisdom, advice and assistance, in virtually all areas of information technology, of the established information services professional.

Additional data identifying market size by industry, professional services expenditures by functional area (e.g. accounting and administration), estimated revenues for major

vendors, vendor selection criteria, and an analysis of public vendor performance, is contained in the full INPUT report, *U.S. Professional Services Market, 1993-1998*. This document also offers an in-depth analysis of the professional services industry and provides recommendations for the vendors of such services.

This Research Bulletin is issued as part of INPUT's Information Services Market Analysis Program.
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